| Market Integrity Notice |

Market Regulation Services Inc.
Services de réglementation du marché inc.

March 4, 2005 No. 2005-004

Suggested Routing: Trading, Legal & Compliance

DOUBLE PRINTING AND THE ENTRY OF ORDERS

Prohibition on "Double Printing"

Market Regulation Services Inc. ("RS") considers that "double printing" creates a false or misleading appearance of trading activity contrary to the provisions of Rule 2.2 of the Universal Market Integrity Rules ("UMIR") that prohibits a manipulative or deceptive method of trading. The term "double printing" occurs when two trades are made on a marketplace when only one trade was necessary to execute an order.

RS issued Market Integrity Notice 2003-002 on January 13, 2003 dealing with the issue of "double printing" and Market Integrity Notice 2003-007 on March 27, 2003 dealing with order marking. To assist Participants in complying with the prohibition on "double printing", this Market Integrity Notice provides additional examples of how orders should be handled and marked, particularly when there are multiple marketplaces trading the same securities. These examples are provided for guidance only and illustrate RS's position under specific scenarios. If a Participant is unclear on how to handle or mark an order in a particular situation, the Participant is encouraged to contact RS for guidance.

Examples of Orders for More than 50 Standard Trading Units

This Market Integrity Notice clarifies that a Participant will not be considered to have engaged in "double printing" if the Participant:

- executes, as principal, with a client order for more than 50 standard trading units that could not be filled, in accordance with the terms of the client order, by orders displayed in a consolidated market display for any single marketplace; and
- subsequently executes trades with certain of the orders displayed in the consolidated market display at the same price as the principal trade with the client.

For each of the examples, assume that:

- a Participant receives a client order to buy 100,000 shares of XYZ at a price of $10.00 per share; and
- the shares of XYZ are traded on two marketplaces: the Exchange and ATS1.

Example 1:

If the consolidated market display indicates that the Exchange has orders to sell 30,000 shares of XYZ at a price of $10.00 per share, the Participant would be able to either:

- execute, as principal on either the Exchange or ATS1, a cross with the client for the 100,000 shares and then execute principal trades with any or all of the orders indicated in the consolidated market display; or
- purchase, as agent for the client, the 30,000 shares offered on the Exchange and then enter a principal-client cross for 70,000 shares on either the Exchange or ATS1.

Example 2:

If the consolidated market display indicates that the Exchange has orders to sell 30,000 shares and ATS1 has orders to sell 70,000 shares at $10.00 per share, the Participant would be able to either:

- execute, as principal on either the Exchange or ATS1, a cross with the client for the 100,000 shares and then execute principal trades with any or all of the orders on the Exchange or ATS1 indicated in the consolidated market display; or
- purchase, as agent for the client, the 30,000 shares offered on the Exchange and the 70,000 shares offered on ATS1.

While the number of shares offered on the two marketplaces is sufficient to satisfy the purchase order from the client, the number of shares offered on any one marketplace will not. Given the uncertainties of being able to execute trades in both marketplaces, the Participant may trade with the client as principal and then execute principal trades with any or all of the orders outstanding on one or both of the marketplaces and will not be considered to have engaged in "double printing".

If the Participant does not have trading access to ATS1, the Participant would be able to either:

- execute, as principal on the Exchange, a cross with the client for the 100,000 shares and then execute principal trades with any or all of the orders on the Exchange indicated in the consolidated market display; or
- purchase, as agent for the client, the 30,000 shares offered on the Exchange and then enter a principal-client cross on the Exchange for 70,000 shares.

Example 3:

If the consolidated market display indicates that the Exchange has orders to sell 30,000 shares at $10.00 per share but there is also an "iceberg order" to sell an undisclosed volume of 70,000 shares at the same price, the Participant would be able to either:

- execute, as principal on either the Exchange or ATS1, a cross with the client for the 100,000 shares and then execute principal trades with the orders indicated in the consolidated market display and with the previously undisclosed volume of the iceberg order; or

- purchase, as agent for the client, the 30,000 shares offered on the Exchange and then enter a principal-client cross on the Exchange or ATS1 for 70,000 shares.

Only orders and volume disclosed in a consolidated market display available to the Participant will be considered when determining whether the execution of a trade would constitute double printing.

Example 4:

If the consolidated market display indicates that the Exchange has orders to sell a total of 100,000 shares of XYZ at a price of $10.00 per share, the Participant would enter the client order to purchase 100,000 shares on the Exchange.

The Participant must **not**:

- execute a principal-client cross of 100,000 shares on either the Exchange or ATS1 and then purchase as principal the shares offered on the Exchange; nor
- purchase as principal the shares offered on the Exchange and then execute a principal-client cross of 100,000 shares on the Exchange or ATS1.

Since the client order can be executed through the entry of one order, the involvement of the Participant in the transaction in a principal capacity would constitute "double printing".

Handling of Orders for Less than 50 Standard Trading Units

Under UMIR, if a Participant receives a client order for 50 standard trading units or less with a value of $100,000 or less the Participant must, subject to certain exceptions listed in Rule 6.3 of UMIR, enter the client order on a marketplace. In accordance with the provisions of Rule 6.3, the Participant may execute the client order upon receipt at a better price than orders indicated in a consolidated market display. If the Participant executes the client order against a principal order or non-client order at a better price, Rule 8.1 of UMIR requires that the Participant must have taken reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market at the time.

Since the Participant is executing as principal at a better price than the one indicated in a consolidated market display, it would not be considered "double printing" if the Participant, subsequent to the trade with the client, unwound all or part of the position acquired in the trade with the client by executing trades with the "inferior-priced" orders.

For the purposes of UMIR, 50 standard trading units would be:

- 5,000 units of a security trading at $1.00 or more per unit;
- 25,000 units of a security trading at $0.10 or more per unit and less than $1.00 per unit; and

- 50,000 units of a security trading at less than $0.10 per unit.

Questions

Questions concerning this notice may be directed to:

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